



STRUCTURAL BALANCE AND THE 2009 BIENNIUM OUTLOOK

GENERAL FUND

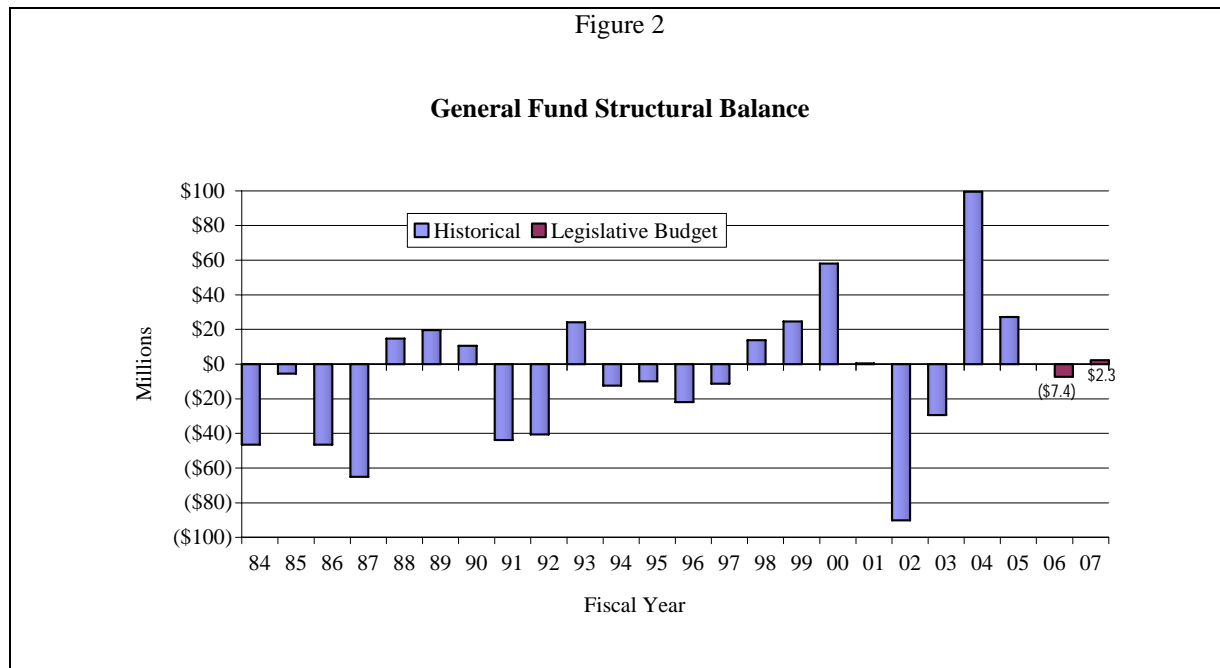
STRUCTURAL BALANCE

Structural balance is defined as the matching of *ongoing* revenues with *ongoing* expenditures. If revenues equal or exceed expenditures, structural balance is achieved. Conversely, if expenditures exceed revenues, structural imbalance occurs. General fund expenditures have exceeded revenues for five of the last nine biennia in the late 1980s, 1990s, and early 2000s (see Figure 1). The structural imbalance for the 2007 biennium is expected to be a negative \$5.1 million, although structural balance is achieved by the end of FY 2007 (\$2.3 million positive). The imbalance in the 2007 biennium includes an allowance for \$81.3 million of one-time disbursements.

Revenue and Disbursement History General Fund & School Equalization Accounts In Millions										
Fiscal Year	General Fund		Surplus /	School Equalization		Surplus /	GF/SEA	GF/SEA	Surplus /	Biennium
	Revenue	Disburse.	Deficit	Revenue	Disburse.	Deficit	Revenue	Disburse.	Deficit	Surplus/Deficit
A 84	\$330.305	\$357.387	(\$27.082)	\$242.384	\$261.753	(\$19.369)	\$572.689	\$619.140	(\$46.451)	
A 85	364.522	380.359	(15.837)	281.275	271.016	10.259	645.797	651.375	(5.578)	(\$52.029)
A 86	349.541	366.815	(17.274)	252.899	282.166	(29.267)	602.440	648.981	(46.541)	
A 87	346.690	391.325	(44.635)	263.052	283.428	(20.376)	609.742	674.753	(65.011)	(111.552)
A 88	391.152	370.853	20.299	276.216 *	281.886	(5.670)	667.368	652.739	14.629	
A 89	411.729	388.270	23.459	275.589 *	279.536	(3.947)	687.318	667.806	19.512	34.141
A 90	447.962	432.323	15.639	282.389	287.393	(5.004)	730.351	719.716	10.635	
A 91	420.257	457.612	(37.355)	385.031	391.500	(6.469)	805.288	849.112	(43.824)	(33.189)
A 92	487.036	523.072	(36.036)	393.591 *	398.059	(4.468)	880.627	921.131	(40.504)	
A 93	539.955	523.553	16.402	412.903	405.067	7.836	952.858	928.620	24.238	(16.265)
A 94	480.021	497.921	(17.900)	411.834	406.388	5.446	891.855	904.309	(12.454)	
A 95	646.149	535.461	110.688	289.199 *	409.822	(120.623)	935.348	945.283	(9.935)	(22.389)
A 96	963.193	984.997	(21.804)				963.193	984.997	(21.804)	
A 97	986.570	997.835	(11.265)				986.570	997.835	(11.265)	(33.069)
A 98	1,034.382	1,020.591	13.791				1,034.382	1,020.591	13.791	
A 99	1,068.111	1,043.418	24.693				1,068.111	1,043.418	24.693	38.484
A 00	1,163.641	1,105.598	58.043				1,163.641	1,105.598	58.043	
A 01	1,269.472	1,268.938	0.534				1,269.472	1,268.938	0.534	58.577
A 02	1,265.713	1,355.903	(90.190)				1,265.713	1,355.903	(90.190)	
A 03	1,246.381	1,275.827	(29.446)				1,246.381	1,275.827	(29.446)	(119.636)
A 04	1,381.565	1,282.038	99.527				1,381.565	1,282.038	99.527	
F 05	1,397.596	1,370.321	27.275				1,397.596	1,370.321	27.275	7.166
F 06	1,420.895	1,428.321	(7.426)	Legislative Budget **			1,420.895	1,428.321	(7.426)	
F 07	1,465.787	1,463.478	2.309	Legislative Budget **			1,465.787	1,463.478	2.309	(5.117)

* Excludes Education Trust & General Fund Transfers.
 ** Excludes One-Time Appropriations/Transfers
 Note: The 1995 Legislature de-earmarked school equalization revenue to the general fund.

Figure 1



In the early 1990s, the legislature began to make progress toward addressing the problem of continuing structural imbalance in the general fund. In setting revenue and expenditure targets, the 1993 House adopted language prohibiting use of "one-time revenue...for any purpose other than creating an ending fund balance" and "temporary solutions to the state's chronic fiscal woes." This effort continued into future sessions, and final legislative actions taken during the 1993 and subsequent sessions have reflected these objectives. However, supplemental appropriations have sometimes contributed to a structural imbalance because the legislature does not budget for contingencies or other unforeseen events or emergencies.

On the expenditure side, legislators have faced the difficulty of restraining budget growth when confronted with double-digit growth in corrections costs, increased human services demands, and rising funding requirements for education. In the 1993 and subsequent sessions, the legislature enacted measures to contain costs in programs growing faster than revenues, such as Medicaid and foster care. These measures were designed to slow expenditure growth and to help the legislature reach structural balance in the general fund in future biennia.

The effort to minimize use of one-time revenues for ongoing programs and enact measures to permanently control expenditure growth began to show success in recent biennia. However, the 2001 legislature adopted a \$56.9 million structurally unbalanced budget for the 2003 biennium. Two years later, expected revenues deteriorated significantly and the imbalance grew to nearly \$120.0 million for the 2003 biennium. This amount is in spite of over \$81.8 million in budget reductions implemented by the executive under 17-7-140, MCA, and legislative actions taken during the August 2002 Special Session. The only reason the ending fund balance for the 2003 biennium remains positive is because the biennium began with a \$172.9 million carry-forward balance.

The difficult task of achieving structural balance is further exacerbated by delayed implementation of expenditure increases and revenue reductions in future budget cycles (2007 biennium and beyond). In many cases, expenditure increases do not occur at the beginning of the biennium, but are phased-in

over the biennium. This results in less cost for the current biennium, but increased costs to fund the same level of program services in the following biennium. As an example, the state employee pay plan increases are phased-in over the 2007 biennium, and the cost to fully fund the pay plan in the 2009 biennium will result in a general fund increase of \$25 million.

Phased-in revenue reductions have the same effect as phased-in expenditure increases. For example, SB 407 authorized an increase in cigarette, tobacco, rental car, and lodging facility taxes coupled with a corresponding reduction in individual income taxes. Because of the phased-in provisions for the individual income tax reduction, the bill increased general fund revenues million in the 2005 biennium, but decrease general fund revenues in the 2007 biennium.

As shown in Figures 1 and 2, general fund expenditures exceed revenues for FY 2006 after adjusting for one-time disbursements. However, since structural balance is achieved in FY 2007, the revenue and expenditure bases are approximately equal at the end of the biennium.

OUTLOOK FOR THE 2007 BIENNIUM

The projected structural balance for FY 2007 is positive at \$2.3 million. Although the state could be considered structurally balanced at that time, there are fiscal “potholes” that could be troublesome as the state moves toward the next biennium. For example, the financial resolution to the public school lawsuit, the increased costs of the phased-in employee pay proposal, rising corrections populations, and continued double digit medical inflation coupled with the potential reduction in federal Medicaid funding could easily consume average revenue growth for the 2009 biennium. Structural balance depends on the ability of ongoing revenue to meet anticipated present law disbursement costs. If average revenue growth is in the range of 3.0 to 3.5 percent per year, then the costs of present law services cannot exceed this amount without tax policy modifications and/or an adjustment to services provided.

HIGHWAYS STATE SPECIAL REVENUE ACCOUNT PROJECTIONS

The following figure summarizes the projections of working capital for the highways state special revenue account. This account funds the Department of Transportation highway planning, construction, and maintenance activities, highway safety enforcement activities in the Department of Justice, road maintenance functions in state parks, and capital projects related to highways infrastructure. The highways state special revenue account is chronically structurally imbalanced, and the level of revenue growth cannot sustain the level of expenditure growth needed to support the services provided. The projections show the account is anticipated to be expended at a higher level than expected revenues for the 2007 biennium (expenditures will exceed revenues by \$53.7 million), and the account is projected to go negative in FY 2007. A detailed working capital analysis for the highways state special revenue account is provided in the Department of Transportation agency discussion in Volume 3, page A-81.

Figure 3								
Highways State Special Revenue Account								
Projected Working Capital Analysis								
Fiscal Years 2004 - 2011								
(in \$ Millions)								
	Fiscal 2004 Actual	Fiscal 2005 Approp.	Fiscal 2006 Approp.	Fiscal 2007 Approp.	Fiscal 2008 Estimate	Fiscal 2009 Estimate	Fiscal 2010 Estimate	Fiscal 2011 Estimate
Beginning Working Capital Balance	\$63.4	\$39.1	\$42.6	\$17.2	(\$11.1)	(\$31.9)	(\$55.1)	(\$80.5)
Revenues	<u>256.0</u>	<u>255.4</u>	<u>259.6</u>	<u>260.9</u>	<u>266.3</u>	<u>276.3</u>	<u>280.1</u>	<u>283.9</u>
Available Working Capital	319.5	294.5	302.2	278.1	255.3	244.4	225.0	203.4
Authorized Expenditures	280.9	252.0	285.0	289.2	287.2	299.5	305.5	311.7
Adjustments	<u>0.5</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Working Capital Balance	<u>\$39.1</u>	<u>\$42.6</u>	<u>\$17.2</u>	<u>(\$11.1)</u>	<u>(\$31.9)</u>	<u>(\$55.1)</u>	<u>(\$80.5)</u>	<u>(\$108.3)</u>
Variance - Revenues less expenditures	(24.8)	3.5	(25.4)	(28.3)	(20.9)	(23.1)	(25.4)	(27.8)

The account is chronically imbalanced in large part because of a relatively inelastic revenue base – motor vehicle fuel taxes. Construction, maintenance, and operating expenditures increase with general inflation whereas the tax on motor fuels is a fixed percentage per gallon. Tax revenues increase only if the number of gallons sold increases and not relative to the price of gasoline. As such, there is no link between expenditure inflation and revenues. In the long term, revenues cannot sustain the escalating costs of the highway program without impacts on the level of the highway program. The federal highway funding legislation has expired as of October 1, 2003, and is currently being authorized through a series of extensions of the old program. If federal funds increase as anticipated when the federal highway funding legislation is reauthorized, and if a full match of available federal funds is to be achieved to provide a fully funded highways program, a revenue increase may be needed.